```
VZCZCXRO7666
RR RUEHLMC
DE RUEHSN #1265/01 3151527
ZNR UUUUU ZZH
R 101527Z NOV 08
FM AMEMBASSY SAN SALVADOR
TO RUEHC/SECSTATE WASHDC 0290
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUCPDOC/USDOC WASHDC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RUEHLMC/MILLENNIUM CHALLENGE CORP WASHINGTON DC
```

UNCLAS SECTION 01 OF 02 SAN SALVADOR 001265

STATE PASS USAID/LAC
STATE ALSO PASS USTR
USDOC FOR 4332/ITA/MAC/WH/MSIEGELMAN
3134/ITA/USFCS/OIO/WH/PKESHISHIAN/BARTHUR
SIPDIS
SENSITIVE

E.O. 12958: N/A
TAGS: EFIN ECON ETRD EINV ES
SUBJECT: FORMER BANKING ASSOCIATION DIRECTOR FORECASTS DIFFICULT
ECONOMIC TIMES IN 2009-2010

REF: SAN SALVADOR 1238

¶1. (SBU) SUMMARY. Former banking association director Claudio De
Rosa expressed confidence in the banking sector but forecasted a
long and difficult two years ahead for the Salvadorian economy. He
encouraged the government and Central Bank to seek contingency
credit from the International Monetary Fund (IMF), so that the
Central Bank could act as lender of last resort. He also advocated
seeking $1 to 2 billion in new international loans for
counter-cyclical operations (e.g., infrastructure projects) during a
probable recession. While either victor of the March 2009
Presidential elections would have a difficult term, de Rosa thought
the situation would be worse under the (left-wing) FMLN because it
lacked experience in government. De Rosa was not, however,
concerned about the current government's short-term liquidity
problems (reftel), putting him among the minority of Posts's
economic contacts. END SUMMARY.

¶2. (U) On November 5, Econoff met with Claudio de Rosa, former
director of ABANSA, the Salvadoran banking association (1997-2006),
and former El Salvador desk officer at the International Monetary
Fund (IMF). De Rosa now writes a financial column in the local
press and has started an Internet-based magazine.

¶3. (SBU) According to de Rosa, the banking sector was well
positioned to confront the international financial crisis. De
Rosa's one concern was the Central Bank's inability to act as a
lender of last resort and inject more liquidity into the system. He
said that he'd been encouraging Technical Secretary to the President
Eduardo Ayala and Central Bank President Luz Maria de Portillo to
seek contingency lines of credit from the IMF, which would not
require legislative approval. Ayala was reluctant to talk to the
IMF, de Rosa said, because the GOES was worried about
conditionality. As a former IMF staffer, de Rosa had advised Ayala
that the GOES could likely negotiate two tranches of credit (up to
$300 million) with little to no conditionality. (NOTE: Press
reports on November 6 confirmed that the GOES is seeking credit from
the IMF. END NOTE.) De Rosa said that it would be "extremely
difficult" for the GOES to redirect the IMF money to cover their
short-term fiscal problems, though it was not technically
impossible.

¶4. (SBU) El Salvador will face difficult economic times over at
least the next two years, however, and de Rosa forecasted the
economy would likely move into recession through at least 2010. He
expressed particular concern over exports. Through August 2008,
export numbers have continued to be a "bright spot" in the economy.
De Rosa feared, however, that maquila exports, which account for
roughly forty-five percent of total exports and three-quarters of
exports to the United States, were based on orders placed before the
international financial crisis, and new orders would either be
cancelled or significantly reduced.

¶5. (SBU) De Rosa projected that "things will be very bad" if (center-right, pro-U.S.) ARENA candidate Rodrigo Avila wins the March 2009 Presidential election, and "even worse" if (left-wing) FMLN candidate Mauricio Funes wins. With the Government of El Salvador (GOES) essentially out of money, de Rosa said that the only way forward he saw was $1 to $2 billion in new loans from an international financial institution that could be used for infrastructure projects and other counter-cyclical fiscal policy projects. An ARENA government would have the experience in government to get money dispersed and projects going in a matter of months. Under an FMLN government, officials would still be learning about procurement, disbursement, etc.; thus, new projects would probably take a year or more to get started.

¶6. (SBU) De Rosa also stated that the private sector would be "more willing to pitch in and help" an Avila government, while they would "wait and see" what a Funes government would do. A long-time advisor to ARENA, de Rosa commented that "some of the right wing" of the party were actually hoping for a Funes victory. With the fiscal and economic situation he would inherit, Funes's government would have a high chance of failure, which would "lead to 25 more years of ARENA" in power. Nevertheless, de Rosa thought that, as long as an FMLN government followed moderate economic policies, ARENA would support new loans in the National Assembly to "do what's right for the country."

¶7. (SBU) Asked about the GOES's short-term fiscal and liquidity problems (reftel), de Rosa replied that he was not concerned. The government has found itself in financial trouble before and always found a way out. The current government, he said, "is like a man who cheats on his wife all the time. He knows how to get out of it

SAN SALVAD 00001265 002 OF 002

when he gets caught." (COMMENT: Subsidies will cost the GOES about $800 million in 2008. President Saca has added new subsidies for bus transport companies and refused to eliminate other subsidies, including for residential electricity users. END COMMENT.)

¶8. (SBU) COMMENT: De Rosa's optimism about the GOES's short-term fiscal outlook puts him among the minority of Post's financial/economic contacts. While the government may have found ways out of financial predicaments before, this time the situation is worse. The banks have already said they want to cash out rather than roll over their short-term government debt, the pension funds appear to be tapped out, and the international debt market has its own problems. END COMMENT.

BLAU